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December 13, 2021

Docket Control
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

OPEN MEETING AGENDA ITEM

RE: In the Matter of Resource Planning and Procurement in 2019, 2020, 2021. *Comments related to Chairwoman Lea Márquez Peterson's letter dated December 1, 2021 and the Staff Assessment of the 2020 Integrated Resource Plans dated December 7, 2021.* (Docket Nos. E-00000V-19-0034, RU-00000A-18-0284).

Tucson Electric Power and UNS Electric, Inc. ("TEP", "UNS Electric", collectively "Companies") are providing comments in response to i.) Chairwoman Márquez Peterson's letter regarding the need to safeguard consumers against the risk of utilities and financially interested stakeholders overbuilding future generation resources and ii.) Staff's Assessment of the 2020 Integrated Resource Plans.

The Companies note that the buildout of generation resources referenced in the Chairwoman's letter that occurred during the 1970s and 1980s¹ occurred prior to the Commission's Resource Planning and Procurement ("RPP") rules that were implemented in the late 1980s. During the 1990s² the expansion of natural gas generation resources was the direct result of the Commission's introduction of retail competition coincident with the suspension of the RPP rules, ultimately leading to the construction of over 11,000 megawatts of merchant natural gas generation in Arizona.³ These historical references underscore the need for moving forward with a regulatory framework such as the Commission's proposed Energy Rules that will allow Arizona to address climate change in a manner that is in the best interest of customers without compromising reliable and affordable service.

Overbuild Safeguards Under the Existing IRP Rules

The Companies' 2020 resource plans were created with significant input from community members who participated in our Integrated Resource Plan ("IRP") Advisory Council. The council included a diverse group of customers, local government representatives and interest group advocates who met regularly with our resource planning team to discuss different aspects of our recommended resource plans. Their

¹ Attachment C, Section A. Utilities overbuilt coal and nuclear in the 1970s and 1980s.

² Attachment C, Section B. Utilities overbuilt natural Gas in the early 2000s.

³ Between 1998 and 2002, the Commission approved over 11,201 MW of merchant natural gas generation plants in Arizona. See Decision Nos. 61295 (1998) (authorizing Griffith Energy for PPL and Duke Energy: 654 MW) 61852 (1999) (authorizing the Desert Basin Power Plant for Reliant Power: 577 MW); 62655 (2000) (authorizing the Harquahala Generating Station for MachGen: 783 MW); 62730 (2000) (authorizing the Gila River Generating Station for Entegra Power: 2,200 MW); 62740 (2000) (authorizing the Duke Natural Gas Plant for Duke Energy: 580 MW); 63232 (2000) (authorizing the Mesquite Power Plant for Sempra Energy: 1,250 MW); 63863 (2001) (authorizing the Sundance Generating Station for TransAlta: 450 MW); 64357 (2002) (authorizing the Arlington Valley Plant for Duke Energy: 577 MW); 64446 (2002) (authorizing the Toltec Natural Gas Plant for the Southwest Power Group: 2,000 MW); 64625 (2002) (authorizing the Bowie Power Station for the Southwest Power Group: 1,050 MW); 64718 (2002) (authorizing the Allegheny La Paz Generating Station for Allegheny Power: 1,080 MW).

contributions, combined with comments received during these public workshops resulted in plans that balance safety, reliability, and affordability for our customers and the communities we serve. Moreover, under the current IRP rules, an Action Plan must be submitted with the IRPs that includes a summary of actions to be taken on future resource acquisitions. During this current planning cycle, the Companies plan to use both the Action Plan and a competitive all-source RFP process as the basis for procuring any new resources. This combination of stakeholder transparency along with the detailed Action Plans provides the necessary protections under the existing IRP rules against the potential overbuilding of future generation resources.

Additional Safeguards Under the Proposed Energy Rules

As described in the excerpts below, the December 1, 2021 recommended opinion and order issued in the Energy Rules Docket finds that the proposed rules provide a structured approval process that gives the Commission additional oversight on utility resource procurement activities from start to finish while also having new cost protections in place for customers:

New Process and Oversight Benefits

The Energy Rules require the Commission to review and approve a utility's load forecast and needs assessment before the utility creates its IRP, requires the Commission or Staff to approve a utility's All-Source Request for Information ("ASRFI") language before the procurement process begins, and requires the utility to use an All-Source Request for Proposal ("ASRFP") process that is consistent with recommended best practices for all-source electric generation procurement.⁴

Moreover, the use of the Resource Planning Advisory Council ("RPAC"), allows the Commission to ensure that a Load Serving Entity ("LSE") considers the factors necessary for the cost-effective provision of safe and reliable electric service to its customers while meeting the Clean Energy Implementation Plan requirements.⁵

New Customer Cost Protections

The Energy Rules prioritize minimization of costs while meeting customers' energy needs safely and reliably. Moreover, because the Energy Rules allow the Commission to waive compliance with any provision of the Energy Rules or to exempt a utility from complying with any provision of the Energy Rules upon a finding that good cause exists and that the waiver or exemption will not harm the public interest, the Commission has a vehicle to alleviate any unduly high costs or other burdens that unexpectedly occur as a result of the Energy Rules.⁶

⁴ Docket RU-00000A-18-0284, Proposed Recommended Opinion and Order, December 1, 2021. Page 78.

⁵ Ibid, Page 78.

⁶ Ibid, Page 78.

Energy Transition Goals Relative to Other States in the Region

The Commission's proposed Energy Rules have less aggressive clean energy targets than other western states. As shown in Table 1 below, across the West, six other states have enacted more stringent renewable portfolio or clean energy standards that target 100% between 2040 and 2050.⁷

Table 1 - Western State Renewable Portfolio / Clean Energy Standards

States	RPS/CES Target	By Years
Oregon	100%	2040
California	100%	2040
Washington	100%	2045
New Mexico	100%	2045
Colorado	100%	2050
Nevada	100%	2050
Arizona	100%	2070

RPS = Renewable Portfolio Standard

CES = Clean Energy Standard

The cost projections associated with reducing carbon emissions show that the most challenging and costly period is likely to be the final stages of the transition to 100% carbon emissions reductions.⁸

Accordingly, the Commission's proposed Energy Rules extend this 100% clean energy transition by 20 to 30 years relative to other states in the western region.

This extension of the compliance deadlines should allow electric utilities to wait until carbon-emissions-reduced technologies mature and decrease in cost before implementing the final stages of carbon emissions reduction.⁹

The Need for Resource Adequacy

As more extreme weather conditions impact the reliability of the western grid, the Arizona utilities need to move forward with the expansion of new capacity resources in order to maintain its reliability independence over the longer-term. These issues of resource adequacy were highlighted as part of the Commission's Energy Reliability Summit held in March 2021. During this special open meeting, the Western Electricity Coordinating Council ("WECC") presented its report on the Western Assessment of Resource Adequacy for the Desert Southwest ("DSW"). The conclusion of that report stated the following:

⁷ <https://www.ncsl.org/research/energy/renewable-portfolio-standards.aspx>

⁸ Docket RU-00000A-18-0284, Proposed Recommended Opinion and Order, December 1, 2021. Exhibit F, Third Revised Economic Impact Statement. Page 22.

⁹ Ibid, Page 22.

As early as 2021, under expected conditions, the DSW subregion may experience some hours in which demand is at risk of not being served with internally available resources. When including imports from other subregions across the Western Interconnection, the DSW subregion can greatly reduce the hours in which the One-Day-in-Ten-Year (“ODITY”) threshold is unmet. The assessment indicates that, to maintain the ODITY threshold, entities in the DSW subregion need to build the resources currently included in the construction queue.¹⁰

The summer extreme heat events of 2020, along with WECC’s recommendations from its 2021 Resource Adequacy Report, further underscore the need for moving forward expeditiously with a regulatory framework that will allow Arizona to address climate change in a manner that is in the best interest of customers without compromising reliable and affordable service.

Staff’s Assessment of the 2020 IRPs

The Companies would like to thank Commission Staff for the extensive work that went into evaluating the 2020 IRPs. The Companies believe that most of Staff’s seventeen recommendations are constructive additions to the current IRP rules; however, the Companies do have concerns on the Modeling Enhancement recommendations that were made as part of the Ascend Analytics report.¹¹ Specifically, Ascend Analytics recommends incorporating the use of sub-hourly data into future IRPs as a modeling enhancement. Even though the Companies believe that the use of sub-hourly data is useful in performing resource adequacy studies or valuation studies of the Western Energy Imbalance Market (“EIM”), the Companies feel that a sub-hourly data requirement would be overly burdensome for purposes of capacity expansion modeling. While the Companies agree that the IRP should incorporate the modeling results of a resource adequacy study and capture the value of participation in EIM, the IRP rules should not require the use of sub-hourly data for capacity planning purposes. This sub-hourly requirement would be costly and onerous on resource planning personnel.

Conclusion

The Companies know our customers want safe, reliable energy from resources that are both affordable and environmentally responsible. TEP and UNS Electric believe that their 2020 IRPs will maintain that balance as we proceed down a path toward a sustainable energy future. The Companies urge the Commission to acknowledge the 2020 IRPs and approve the Energy Rules at the December 2021 Open Meeting.

¹⁰ WECC - Western Assessment of Resource Adequacy Subregional Spotlight: Desert Southwest (DSW) January 29, 2021. Page 14.

¹¹ See Ascend Analytics Report. <https://docket.images.azcc.gov/E000015107.pdf?i=1639164448535> Page 11.